Editor's Notes

American Woman's Society of Certified Public Accountants

American Society of Women Accountants

EDITOR'S NOTES

COVER AND CONTENT

First things first. So we call attention to the new, contemporary design and color of our cover and to the increased number of pages within it.

We hope that these physical evidences of change will be regarded as progress for the publication. We hope even more that each succeeding issue will carry a material content that is even stronger evidence of our efforts to create a forceful instrument of education and a dynamic purveyor of accounting thought and technical information.

MANAGEMENT ACCOUNTING

Four years ago, in the February 1964 issue of THE WOMAN CPA, Dr. Helene M. A. Ramanauskas, in her sixth article written for this publication, discussed "the challenges our profession has to face at present through the scientific management movement and the breakthrough of electronic data processing."

In this issue she discusses ACCOUNTING AS A MEANS OF MEASURING PRODUCTIVITY, a valuable aid to management in making decisions based upon quantitatively measured factors rather than upon intuitively selected alternatives.

The already well-developed importance of management accounting and of management information systems are further underscored by the books and articles reviewed in this issue commencing on page 17.

This concentrated accent upon the management decision-making processes and the part that accounting plays in them is a challenge to the profession and especially to the accountant who studied management in the pre-60's.

The editor was chagrined to learn that a pre-60 education (and a 1946 edition Scrabble dictionary) were inadequate to even cope with some of the terminology in Dr. Bernadine Meyer's review of "Management Decision Making" on page 18 of this issue.

We hope that our discomfiture will be the prod to impel us and others to put forth the needed effort to meet the new challenges of our profession as they arise.

Just for the record, the editor has already been prodded into the purchase of a new dictionary.

CONGLOMERATES

A recent addition to the financial world's descriptive terminology is the "conglomerate company." The term designates those entities who have expanded their interests, not vertically or horizontally in any recognizable broad industry grouping, but who have diversified in an apparently haphazard and patternless fashion until the entire company appears to be an unrelated conglomeration of economic components.

One problem that the conglomerate company poses to the accountant and to management is the consideration of the necessity or desirability of changes in the financial reporting function.

Diversified companies with certain characteristics should report sales and the relative contribution to profits of each major broad industry group, according to the recommendations in a study conducted by the Research Foundation of Financial Executives Institute.

The report is the result of a year of intensive research by the Foundation to determine the usefulness, practicability and desirability of publishing corporate results of operations on a more detailed basis than total company results. Its findings place stress on the necessity for management of a corporation, working within recommended guidelines, to make the determination of the information and group breakdowns which would be meaningful to investors.

The research project, headed by Dr. R. K. Mautz, Professor of Accountancy at the

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From "Call for More Women Accountants"

I think there are four (attributes) which make women particularly suitable for accountancy.

First, a woman has an intuitive grasp of matters which will take her through a difficult situation. Second, men are often frightened of detail, but a woman will go through detail without being harrassed. Then, women have had outstanding successes in negotiation—this, of course, could be of great benefit—particularly, perhaps, in dealing with the Inland Revenue Office. But the most outstanding thing about a woman is her supreme ambition to be fair at all times.

Sir Henry Benson, CBE, FCA
The Accountant, December 10, 1966

changed its per share price to $5. That day was a good one in the market place and all three stocks advanced in price $1 per share. Without an adjustment for the split, closing prices would have been $6, $11, and $6, for an average of $7.67, which was $2.33 less than on the previous day, though each stock was actually higher.

Continuing with the basic illustration—on the day that the closing average was $10, it was known that company C was splitting its stock. Using the adjusted prices of $5, $10, and $5 we arrive at a total of $20. Dividing this total by the actual average of $10, we arrive at a conversion factor of 2 which will be used as the divisor the next day in place of the actual 3. When the new closing prices of $6, $11, and $6 are totalled and divided by our new divisor of 2, we show a new average of $11.50, up $1.50 from the previous day.

Substitutions

The new divisor will continue in use until another split or large stock dividend, or until a substitution is made in the list. Substitutions are made when a stock becomes too inactive, when its movements become so small as to have little effect on the average, or when for some reason a stock ceases to be representative of a substantial sector of American industry. When a substitution is made, the divisor is adjusted just as when a split occurs.

The divisor is not changed unless the net effect on the averages exceeds five points. When a component of the average does not sell on any day, the last previous closing price is used.

Currently the conversion factor from dollars to points is 2.278. To convert the point change to dollars, multiply the change by this factor and divide by thirty. A point change of one is comparable to about eight cents, and a point change of ten is only about seventy-six cents per share. The actual average of the thirty industrial stocks would be about $60. Using the conversion rate, the average is over 800 points. This is not a dollar average of the market, but it is a market movement indicator, undistorted by the many stock splits since its inception.

The Individual Investor

The concern of the individual investor is not with the averages. He must be interested in individual prices and trends. When the average falls twenty points, it is headline making news, but the market has not fallen out of bed. A twenty point drop from 900 is approximately 2%. If an individual stock, priced at $50, dropped 2%, the net change would be $1. A ten point rise on the Dow Jones from the 900 level would be little more than 1%, which would compare with a fifty cent rise in a $50 stock.

All stock indexes constitute statistical yardsticks for professional analysts, brokers, and students of the market. The investment industry as a whole feels that because of its historical continuity and basic principles, the Dow Jones is a reliable index.

CONGLOMERATES

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University of Illinois, relied upon the responses of hundreds of U. S. corporations and financial analysts.

"Management, because of its familiarity with company structure", states the study, "is in the most informed position to separate the company into realistic components for reporting purposes. To require reporting on some rigid basis might fractionalize a company into unnatural parts which could not fairly reflect the results of its operations".

The report suggests that companies which are unitary in nature, that is, which operate almost completely within a single broadly-defined industry, or which are highly integrated, should not be expected to fractionalize themselves for reporting purposes but companies which to a material degree have activity in more than one broadly defined industry should meet the extended disclosure requirements.

According to the study, a "material degree" means 15% or more of a company's gross revenue. No present system of industry or product classification appears ideally suited to the identification of broad industry groups so considerable discretion to management in defining broad industry groupings is essential.

The study recommends that disclosures may be included in parts of the annual report other than the formal financial statements. Whether in narrative or tabular form, they should be grouped and should carry a clear indication of the limitation of their usefulness.

The findings released are in summary form. The full report, including voluminous statistical data, will be released in the late spring of 1968.

The Financial Executives Research Foundation enlisted the assistance of representatives of the American Bar Association, the New York Stock Exchange, the Securities and Exchange Commission, the Investment Bankers Association, the Financial Analysts Federation, the National Association of Accountants and the American Institute of Certified Public Accountants in providing information in the course of the study.